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SPECIAL MEASURES FOR THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES AIMED AT EXPANDING THEIR TRADE AND IMPROVING THEIR ECONOMIC AND SOCIAL DEVELOPMENT

Statement by the representative of the Secretary-General 1/ at the eleventh meeting of Working Group II on 8 March 1968

The task before the Working Group in the days ahead Mr. Chairman is that of considering and devising "special measures to be taken in favour of the least developed among the developing countries aimed at expanding their trade and improving their economic and social development".

The importance of this subject has been recognized at the first Conference as reflected in various recommendations of the Final Act, in particular General Principle Fifteen which lays down that "the adoption of international policies and measures for economic development of developing countries shall take into account the individual characteristics and different stages of development of the developing countries, special attention being paid to the less developed among them as an effective means of ensuring sustained growth with equitable opportunities for each developing country". Recommendations A.IV.1 which establishes guidelines for international financial co-operation; and A.III.8 which relates to expansion of trade in manufactures among developing countries also stress the need of the least developed countries. To give effect to these recommendations of the Final Act, the Trade and Development Board at its fourth session decided to include the question in the provisional agenda of the second Conference. For this purpose, the secretariat has also prepared a study, the results of which are embodied in documents TD/17 and TD/17/Supp.1. TD/17 offers a general examination of the problem of least developed countries and a number of suggestions on special measures that could be taken in their favour. The supplement examines the problem of identification of the least developed among the developing countries.

1/ Circulated at the request of the Group.

In whatever way one defines the least developed countries, whether one considers these countries as those progressing from a predominantly subsistence to a cash economy, or those with a low level of per capita income, or those with a meagre level of industrialization, or possessing a combination of these and other related characteristics, the important point is that there are such countries, and differences as to the correct way of identifying them cannot obscure this fact; and that they can be recognized with a certain degree of accuracy, their trade and development problems studied and measures in their favour designed and provisions made in the UNCTAD programme of trade and development to assist their own efforts at accelerated development.

At the fifth session of the Board in September 1967, this item was identified as one of the "focal points" which might attract the special attention of the Conference.

The group of 77 considered the question of providing special measures for least developed countries at the Algiers conference and appointed a working group of 15 from all regional groups of the developing world to consider the question and make concrete recommendations. The recommendations of the working group have now been adopted by the Group of 77 and are now before you as part of the Algier's Charter, document TD/38,Add.2. I also want to draw your attention to the documents listed by the secretariat in TD/II/WG.II/L.1, which provide background material for our work. At the plenary meetings of the Conference, many heads of delegations have made statements relating to agenda item 15. You have before you document TD/II/WG.II/Conference Room Paper 3 and Addendum 1 which contain extracts from the debate in the plenary relating to item 15.

In consideration of special provisions for least developed countries, it would be an oversight not to recognize that all developing countries have many common economic characteristics and common basic trade and development problems, in spite of differences in their level of development and their capacity to participate and reap benefits from the general measures of UNCTAD. Indeed, for example, the successful application of a comprehensive international commodity policy is of particular interest to the least developed countries since primary commodities are at present their most important, if not their only source of export earnings. Again, the need to

overcome their dependence on primary commodities and to expand their foreign earnings by exporting manufactures and semi-manufactures is of particular importance to them. A number of them, although not yet in possession of an industrial sector, are in a position to expand the processing of their raw materials and agricultural products. A general scheme of preferences would open considerable opportunities for them. The increase in the flow and the improvement in the terms of development finance is also relevant and the world and regional financial institutions, in particular the International Development Agency, take into account in their lending policies the degree of development of countries. Indeed, the replenishment of IDA funds is of direct significance to the least developed countries and several regional financial institutions such as the Asian Development Bank and the African Development Bank, have special provisions for the least developed countries. Regional and sub-regional economic co-operation and integration schemes are vital for the least developed countries whose national markets are too small to allow for possible economies of scale. Their efforts to diversify production are seriously handicapped unless they can create, together with other developing countries, multinational markets as a basis for their industrialization. Consequently, a systematic effort to promote and enlist international support for regional and sub-regional economic co-operation and integration would benefit the least developed countries.

It is evident, that there are many measures in the general UNCTAD development programme in which the least developed countries have a stake and from which they can benefit. The question therefore arises as to what are the handicaps of countries of a low level of development that may vitiate their ability to take full advantage of the general measures designed to promote the interests of all developing countries. Obviously, countries whose productive resources are still in the initial stages of development are least able to help themselves by responding to opportunities of development through trade. Measures to improve earnings from primary products and to increase access for manufactures to the markets of the developed countries will not help the countries which produce limited amounts of primary products

and few manufactures. The need, therefore, to develop the productive capacity of the least developed countries so that they can increasingly share from the benefits of liberal trade policies is a first imperative. Larger aid flows should help enlarge the productive capacity to the point where least developed countries are able to benefit fully from the various trade measures. This would also imply that special provisions are needed to enable the least developed countries to share in the benefits accruing to all the developing countries from the general UNCTAD measures.

The problem is therefore twofold: one to enlarge the productive capacity of least developed countries, and two, to make provisions that would enable them to benefit fully from the general measures in favour of all developing countries.

The least developed countries are particularly handicapped in expanding their trade and accelerating their development by their relatively low capacity to absorb foreign aid because of inadequate economic and social infrastructure and the lack of technical skills. At the same time, because of prevailing low levels of income, the financial resources available from domestic sources are usually very restricted and the flow of external resources may also be limited by lack of adequately prepared development projects. To assist the least developed countries in enhancing their capacity to absorb increased inflows of financial assistance and for widening and deepening their technological and social service bases, it is proposed, in secretariat document TD/17, that they should be given priority access to funds for pre-investment and feasibility studies; for technical assistance; for economic and resource surveys, and for the formulation of development plans. It is also proposed that the special needs of the least developed countries be taken into account in increasing the flow of aid for building infrastructural facilities such as transportation and communication networks, energy supplies, educational and health facilities, etc. Infrastructural investments require large financial resources which are, as a rule, beyond the possibilities of the great majority of least developed countries. Since they are usually and particularly lacking in adequate infrastructure, the more financial assistance is directed into infrastructural investments, the more

they are likely to benefit. The secretariat also proposes that specific commitment should be considered, for instance within UNIDO, for assisting the least developed countries particularly in the establishment of export oriented industries. Moreover, regarding development finance, the needs of the least developed countries are such as to require larger flows of financial assistance with a preponderance of grants. /In order to enable them to take increasing advantages of opportunities in the trade field the need to widen the infrastructural base and the productive capacity is evident./

In the sphere of trade, a number of provisions that enhance the opportunities for least developed countries could be considered.

In the field of commodity policy, the desirability of some measure of flexibility in international commodity agreements, improved access to commodity markets with suitable safeguards for all developing countries including refund of revenue-charges, especially those that are excessive, could be considered. Commodity policy is of paramount importance to all developing countries now and for some time to come. This is particularly true for some developing countries that depend for their export earnings on one or two primary commodities, so that any policy that would tend to restrict their primary exports or inhibit their expansion could seriously disrupt the process of economic development. Commodity policy should provide the developing countries with an opportunity to exploit their potential in the products in which they are most suited by virtue of their natural endowments and therefore could produce economically.

TD/17 suggests a number of measures in the field of commodity policy in favour of least developed countries.

(1) In designing programmes for the relaxation and elimination of various tariff and, in particular, non-tariff barriers and domestic support policies affecting access to markets for primary commodities, special consideration could be given to the needs of the least developed countries, and to the commodities of particular interest to them. Such measures would necessarily vary according to the market characteristics of each commodity.

(a) Regarding products which compete with the domestic production of developed countries special attention could be given to commodities of particular interest to least developed countries in market sharing arrangements designed to allocate to developing countries a defined percentage of the consumption of the developed countries.

(b) Developed countries which grant special preferences and developing countries that enjoy them could contribute to preventing the possibility that the least developed countries outside existing preferential schemes would suffer from their impact by extending existing special preferences to all least developed countries. It may be considered especially unjustified if the disadvantages resulting from existing preferences should be borne by the least developed countries.

(2) In regard to commodity agreements, it is proposed in document TD/17 that:

(a) supplying countries as a whole might agree to take into consideration the least developed countries real production and export potential in so far as it can be economically exploited. This should enable least developed but potentially efficient producers to attain economic levels of production without limiting market opportunities to efficient producers;

(b) when financial and technical aid to production and diversification are considered or applied, a more systematic attention should be given to the needs of the least developed countries with a view to helping them raise their productivity through research and the use of modern techniques and, more important, to make appropriate changes in their economic structure.

In the field of manufactures, several proposals are made in the secretariat documents TD/12 and TD/17 in respect of special measures which would enable the least developed countries to participate more effectively in the benefits of a general scheme of preferences. At this conference the second committee had an opportunity to discuss these proposals thoroughly.

I wish to draw the attention of the Working Group to the summary proceedings of the Second Committee, in particular TD/II/C.2/SR.13 to 15, and to document TD/II/C.2/ Misc.5 containing the Chairman's summing up on Special measures for the least advanced developing countries. The Working Group will note that the Committee has devoted considerable attention to this question, making it possible to draw some tentative general conclusions from its deliberations. At this stage I will only allow myself the comment that there appears to be a unanimous agreement in the Committee that "everything possible should be done to enable the least advanced developing countries to secure a fair share of the benefits accruing from a system of general preferences". Since negotiations are now proceeding in the contact group appointed by the Second Committee, this working group may want at this stage only to take note of the progress so far achieved and not duplicate the Committee's efforts.

Regional economic co-operation and integration involving countries with different levels of development offers a wide range of possibilities for special measures in favour of the least developed countries. Several secretariat documents make suggestions on a variety of measures to ensure that the gains from regional co-operation or integration schemes are as fully as possible shared by all the partner countries. Under item 14, this working group had the opportunity to discuss this subject. So far as the smaller least developed countries are concerned, regional economic integration is a necessity for their industrialization and for an accelerated rate of economic development. Consequently, there is a need for a systematic effort to enlist international support for promoting regional integration schemes. In order to ensure participation in regional integration schemes, the more advanced partner countries could also provide special measures in favour of the least advanced of their regions.

Attention could be paid to the least developed countries also in the area of trade promotion. The joint UNCTAD/GATT International Trade Centre could take into consideration the special needs of the least developed countries in formulating its

trade promotion programme, including training of trade officials from developing countries. The least developed countries could be given special attention in the facilities offered by the United Nations trade promotion programme and by other international organizations. An effort could be made by developed countries through specific "import promotion" measures in favour of the products of the least developed countries.

The socialist countries could consider participating in the various schemes suggested in favour of the least developed countries or achieving the same results by means of other trade policy instruments appropriate to their system. In drawing up their long-term economic plans and in concluding long-term agreements and contracts, they could pay special attention to the needs of the least developed countries and to promoting consumption and imports of products of particular interest to these countries. Furthermore, in their long term economic co-operation agreements concluded with the least developed countries, they could consider extending special financial assistance to them on concessional terms.

May I now turn to the problem of identification. I believe careful consideration should be given to this important and sensitive question. When we talk of a developing country or a least developed country, we are referring to the "level of development". The question arises therefore as to how, and of utmost importance, for what purpose one measures the level of development. It is difficult to make a strict classification of the developing countries and of the least developed among them. However, the technical difficulties are not insurmountable. The secretariat document TD/17/Supplement 1 offers an analysis of these problems and possible approaches to their solution. It may nonetheless be unnecessary to have a strict classification in order to determine, with reasonable accuracy, which countries are not in a good position to avail themselves of the opportunities offered by various measures and policies in the UNCTAD development programme. There are therefore two or more approaches to the identification problem.

One possible approach /to the identification of the least developed among the developing countries/ is to differentiate developing countries by means of the level of development concept. Under this approach the identification of countries is based on a set of indicators reflecting the social and economic features that are most relevant to the level of development concept. TD/17/Supp.1 examines a number of such indicators. The list is by no means exhaustive and can be supplemented by auxiliary indicators, subject to the availability of comparable data. I will give some illustrative examples.

1) There is the per capita domestic product. The current situation with respect to international comparability of national accounts data is such, however, that this indicator can be used more suitably in conjunction with other more specific indicators.

2) There is the proportion of total gross domestic product originating in the manufacturing sector of the percentage of the labour force engaged in manufacturing activity. Besides measuring the level of industrialization, these data also give some indication of the relative importance of market-oriented activities as distinguished from the traditional subsistence sector.

3) There is the per capita energy, cement or steel consumption which indicates the level of economic infrastructure.

4) There is the level of literacy or the number of doctors and of university and technical school graduates per thousand of the population, which indicates the level of social development.

5) Then there are various indicators showing the degree of development or vulnerability of the country's foreign trade links with the outside world. These include: the level of per capita exports, the relative importance of primary commodities in total exports, and the degree to which exports are concentrated on one or a few products.

Under this first approach, Mr. Chairman, a combination of these and other indicators can be used to identify the least developed countries. TD/17 Supp.1 exposes the weaknesses of this method. Since, however, out attempts at identification have a practical purpose, that is to provide specific measures and provisions in favour of the least developed countries, the exercise of identification itself could be given a more practical orientation, in the sense of being linked

more directly to the policy measures being considered. This is the second approach to the problem of identification. Instead of attempting to draw up an all purpose list of least developed countries based on a given set of development indicators, one might follow a more policy oriented approach. On the assumption that developing countries can be least developed in some but not necessarily in all respects, it might be desirable to identify the countries which are least likely to benefit from a given undifferentiated UNCTAD policy measure. Many of the indicators discussed in TD/17/ Supp.1 are clearly related to one or another of UNCTAD policy recommendations. Under this approach the institutional machinery concerned would undertake the identification of the least developed countries in the context of the particular policy measure it is charged with implementing and supervising, taking into consideration the objectives of the policy measure being applied. The machinery would also design the form of, and elaborate on, the special measures to be taken in favour of the countries so identified. Those developing countries deserving special attention may well emerge in the course of the consideration and implementation of specific measures. This approach has some flexibility in that its coverage would vary to some extent, depending upon the specific measure under consideration. In each case, the policy measure itself may point to some major identifying criterion which may be supplemented by other indicators generally agreed to be relevant to the policy issue involved. Or, alternatively, the institutional machinery dealing with each of the general UNCTAD policy measures may be entrusted with the evaluation of claims for special treatment by countries failing to benefit appreciably from an undifferentiated application of these measures. The machinery would review the claims on a case by case basis, taking into account all pertinent factors. One can also use as a guide the identification arrived at in regional integration schemes; where developing countries are members of regional or sub-regional schemes, the countries enjoying special treatment within each integration scheme, because of the relatively low level of their development, could be considered as the least developed countries. Another additional consideration may emerge from the deliberations of Working Group III on Special problems of the land-locked countries in case it comes to the conclusion that the land-locked developing countries should have recourse to special measures envisaged in favour of least developed countries.

Thus it seems possible to arrive at a workable solution to the problem of identification. The UNCTAD secretariat has undertaken, and continues to undertake, extensive studies on trade prospects and capital needs of developing countries on a country by country basis. These studies represent an attempt to quantify various aspects of the development problem so as to provide a framework for discussions of trade and aid policy. They throw considerable light on the question of the "trade and resource gap" and on the question of "absorptive capacity". Thus our country studies and projections, and the various indicators of the level of development give us an insight into the characteristics, the problems and the handicaps of developing countries.

We can also learn from the practices and experiences of existing institutions. Although there is apparently no formalized procedure being followed by existing international financial institutions in deciding on the claims to more lenient terms and conditions for finance by developing countries, they have accumulated considerable experience from which we can benefit. The IDA has fact-finding missions for arriving at a balanced assessment of claims by countries for special treatment.

In conclusion, Mr. Chairman, I would like to point out that the essence of "special measures" lies in the recognition that the capacity of the least developed countries to participate and reap benefits from the measures of international co-operation should be enlarged so that the global efforts of the United Nations could achieve their full significance. The secretariat is making a start in the endeavour of giving adequate recognition to the problem. The least developed countries need to be more effectively integrated into the world economy so that they will be in a position to contribute fully to the prosperity and peace of the world and add content and meaning to the human solidarity and international co-operation which this conference is seeking.